

**REPORT OF THE AUDIT OF THE
CLAY COUNTY
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
July 1, 2006 Through December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLAY COUNTY FORMER SHERIFF'S SETTLEMENT - 2006 TAXES

**For The Period
July 1, 2006 Through December 31, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the former Clay County Sheriff for the period July 1, 2006 through December 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected \$2,172,225 for the districts for taxes, retaining commissions of \$89,833 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,080,519 to the districts for taxes.

Report Comments:

- The Former Sheriff Should Have Requested The Return Of School Tax Commissions In A More Timely Manner
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Accounted For Tax Bills Correctly

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Carl E. Sizemore, Clay County Judge/Executive

Honorable Edward Jordan, Former Clay County Sheriff

Honorable Kevin Johnson, Clay County Sheriff

Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the former Clay County Sheriff's Settlement – 2006 Taxes for the period July 1, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Clay County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Clay County Sheriff's taxes charged, credited, and paid for the period July 1, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2008, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Carl E. Sizemore, Clay County Judge/Executive

Honorable Edward Jordan, Former Clay County Sheriff

Honorable Kevin Johnson, Clay County Sheriff

Members of the Clay County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Requested The Return Of School Tax Commissions In A More Timely Manner
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Accounted For Tax Bills Correctly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

February 20, 2008

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2006 TAXES

For The Period July 1, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 235,468	\$ 445,819	\$ 1,466,178	\$ 401,865
Tangible Personal Property	22,771	55,288	141,788	97,402
Fire Protection	4,064			
Franchise Taxes	13,134	31,842	81,789	
Franchise Taxes- Prior Year	5,009	8,544	30,313	
Amended Charges	45	82	271	74
Additional Billings	183	303	1,121	319
Adjusted to Sheriff's Receipt	(457)	18	9	1
Gross Chargeable to Sheriff	<u>280,217</u>	<u>541,896</u>	<u>1,721,469</u>	<u>499,661</u>
<u>Credits</u>				
Exonerations	6,726	12,716	41,818	11,462
Discounts	3,077	5,941	18,855	6,178
Transfer to Incoming Sheriff	<u>70,781</u>	<u>133,476</u>	<u>436,072</u>	<u>123,916</u>
Total Credits	<u>80,584</u>	<u>152,133</u>	<u>496,745</u>	<u>141,556</u>
Taxes Collected	199,633	389,763	1,224,724	358,105
Less: Commissions *	<u>8,772</u>	<u>16,565</u>	<u>48,989</u>	<u>15,507</u>
Taxes Due	190,861	373,198	1,175,735	342,598
Taxes Paid	190,722	372,947	1,174,869	342,364
Penalty (State Only)				7
Refunds (Current and Prior Year)	<u>139</u>	<u>251</u>	<u>866</u>	<u>241</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

10% on \$10,000	\$ 1,000
4.25% on \$ 937,501	39,844
4% on \$1,224,724	48,989

The accompanying notes are an integral part of the financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2006 through December 31, 2006.

Note 4. Interest Income

The former Clay County Sheriff earned \$966 as interest income on taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Edward Jordan, Former Clay County Sheriff
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Clay County Sheriff's Settlement – 2006 Taxes for the period July 1, 2006 through December 31, 2006, and have issued our report thereon dated February 20, 2008. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Clay County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Clay County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Clay County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Former Sheriff Should Have Requested The Return Of School Tax Commissions In A More Timely Manner
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Accounted For Tax Bills Correctly



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clay County Sheriff's Settlement – 2006 Taxes for the period July 1, 2006 through December 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Clay County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 20, 2008

COMMENTS AND RECOMMENDATIONS

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 1, 2006 Through December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During the testing of expenditures and review of internal controls, we noted several significant deficiencies that resulted in a material weakness in the internal control structure that should have been strengthened:

- The employee responsible for reconciling daily receipts to daily checkout sheets also had access to accounting records and daily deposits.
- The employee responsible for making daily deposits also received cash and maintained daily checkout sheets.
- The employee responsible for opening mail and listing mail receipts also had access to cash receipts and accounts receivable records. The list of mail receipts should have been compared to the cash receipts ledger and authenticated copies of deposit slips by an employee having no access to cash.
- The employee responsible for preparing checks was also responsible for purchasing and receiving. This employee should have been independent of purchasing and receiving.
- The employee authorized to sign checks was not independent of recording transactions, check preparation, receiving cash or purchasing and receiving.
- The employee with custody of checks after the former Sheriff signed them and before they were mailed was also responsible for disbursing cash, receiving cash, preparing daily bank deposits, and preparing daily checkout sheets.

The following compensating controls could have been implemented by the former Sheriff to help offset the segregation of duties weakness within the office:

- The former Sheriff could have periodically reviewed the daily checkout sheet, daily bank deposit, and compared to the receipts ledger. The former Sheriff could have documented this by initialing the documents. Any differences notes could have been reconciled.
- The former Sheriff could have periodically reviewed the accountant's bank reconciliation by comparing it to the balance in the checkbook and for agreement with the monthly financial reports. The former Sheriff could have documented this by initialing the documents.
- The former Sheriff could have required two signatures on all checks written with one being the Sheriff.
- The former Sheriff could have done surprise cash counts on a regular basis. The former Sheriff could have documented this by initialing the documents.

By performing the above procedures, the internal controls could have been strengthened and could have reduced the potential for material misstatement.

Former Sheriff's Response: I didn't initial the receipts, even though I did review them. The accountant and I stayed in contact on financial matters weekly. I didn't want two people to sign checks. I had one person designated to sign the checks.

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 1, 2006 Through December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(CONTINUED)

The Former Sheriff Should Have Requested The Return Of School Tax Commissions In A More Timely Manner

During our review of tax commissions, we noted that the Clay County Board of Education did not return tax commissions totaling \$36,939 for November 2006 tax collections until January 2007. The former Sheriff should have maintained a detailed record of all tax commissions paid and received from the Clay County Board of Education. This procedure would have insured timely repayment of commissions to the former Sheriff.

Former Sheriff's Response: I did contact the school district. Their answer was I did not know you had not been paid.

The Former Sheriff Should Have Accounted For Tax Bills Correctly

The former Sheriff did not properly account for all taxes collected. There were three (3) tax bills advertised in the local newspaper as delinquent although these had been paid to the former Sheriff. The former Sheriff contends he mistakenly applied the payments received for these tax bills to other tax bills, which had not been paid. This resulted in a deficit of \$383 in the former sheriff's tax account. We recommend the former Sheriff remit payment of \$383 to the taxing districts for payment due on the three tax bills, thereby eliminating the deficit. The former Sheriff should have maintained better internal controls over tax collections in order to assure all taxes had been accounted for properly.

Former Sheriff's Response: I'm only human in making a mistake. All of the money has been paid and accounted for.

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